

Memorandum

To: ISO Board of Governors

From: Karen Edson, Vice President, Policy & Client Services

Date: January 31, 2013

Re: **Legislative and State Regulatory Update**

This memorandum does not require Board action.

STATE AFFAIRS

ISO Board:

On January 16, 2013 ISO Board Members Bob Foster and Dave Olsen were reappointed by Governor Brown. Both reappointments will require confirmation by the State Senate, following a hearing and passage by the Senate Rules Committee.

Energy Efficiency Hearing:

On Monday, January 28, the Senate Energy, Utilities and Communications Committee will host an informational hearing on energy efficiency entitled "Energy Efficiency: All Negawatts Are Created Equal, But Some Are More Equal Than Others." The hearing will consist of two panels.

During the first panel, the Legislative Analyst's Office will provide an overview of its December report on energy efficiency. In the report, the Analyst found that the state currently lacks a comprehensive framework that fully coordinates the state's energy incentive programs to help ensure that the state's goals are being achieved in the most cost-effective manner. The report recommended that the Legislature develop a comprehensive strategy for meeting the state's energy efficiency and alternative energy objectives.

During the second panel, the ISO will testify before the committee along with the California Public Utilities Commission and California Energy Commission. Keith Casey, Vice President of Market and Infrastructure Development, will testify for the ISO.

Legislature:

The legislature is back for the first year of the two-year session. They will have until September 13, when interim recess begins, to pass bills.

Committee assignments in both houses have been announced. Senator Alex Padilla (D-Pacoima) and Senator Jean Fuller (R-Bakersfield) remain as Chair and Vice Chair, respectively, of the Senate Energy, Utilities and Communications Committee. Senators Cannella (R-Ceres), Corbett (D-San Leandro), de León (D-Los Angeles), DeSaulnier (D-Concord), Hill (D-San Mateo), Knight (R-Palmdale), Pavley (D-Agoura Hills), Wolk (D-Davis) and Wright (D-Los Angeles) round out the committee.

On the Assembly Utilities and Commerce Committee, Assemblyman Bradford (D-Gardena) remains as Chair, while freshman Assemblyman Jim Patterson (R-Fresno) was named Vice Chair. Other members include Assembly members Allen (R-Huntington Beach), Bonilla (D-Berkeley), Buchanan (D-Alamo), Fong (D-Mountain View), Gaines (R-Rocklin), Garcia (D-Bell Gardens), Gorell (R-Camarillo), Hernandez (D-West Covina), Jones (R-Santee), Quirk (D-Hayward), Rendon (D-Lakewood), Skinner (D-Berkeley), and Williams (D-Santa Barbara).

Senate President Pro Tem Darrell Steinberg (D-Sacramento), and Senator Jean Fuller (R-Bakersfield) remain Chair and Vice Chair, respectively, of the Rules Committee. Senators Bill Emmerson (R-Riverside), Ricardo Lara (D-Bell Gardens), and Hanna-Beth Jackson (D-Santa Barbara) also sit on the committee.

Regulatory Update

South Coast Air Quality Management District (SCAQMD) – Proposed Rule 1304.1:

The SCAQMD published its proposed Rule 1304.1 on January 4 and ISO staff provided oral comments at a January 10 public consultation meeting. The purpose of this rule is to require electrical generating facilities which use the specific offset exemption described in Rule 1304(a)(2) [Electric Utility Steam Boiler Replacement] to pay annual fees for up to the full amount of offsets provided by the SCAQMD.

Our comments focused on the potential for the proposed rule to create unintended consequences that could affect reliability in the Los Angeles Basin. Of particular concern, the district proposes to require generation developers to make an upfront deposit of five years' annual fees that are 50% non-refundable prior to receiving a permit to construct. After issuance of a permit, the remaining 50 percent of the deposit becomes increasingly non-refundable over a five year period regardless of whether or not the generating plant is built. We have communicated our concern that this could create a disincentive for repowering of plants that are required to comply with the state's once-through cooling regulation by 2020.

Staff is participating in a working group formed by the district. The SCAQMD board will likely consider adoption of the proposed rule in April.

Gas-Electric Coordination:

FERC remains very interested in the coordination of gas and electric operations and has scheduled three technical conferences this year. The first, in February, will cover routine and emergency communications. Subsequent conferences will include exploring the benefits and concerns of “harmonizing” gas and electric daily market schedules, ongoing assessments of infrastructure readiness to accommodate transition from coal and integration of variable renewable energy, as well as the role of FERC and the potential need for reliability standards in this area. FERC has positively recognized the coordination efforts in California, including ISO operating procedures, and requested the ISO participate in these technical conferences.

FEDERAL AFFAIRS

Cabinet transition:

U.S. Environmental Protection Agency Administrator Lisa Jackson announced at the end of December that she would step down after President Obama’s State of the Union Address on January 23. Deputy Administrator Bob Perciasepe will serve in an acting position until a new Administrator is confirmed, but is also considered by many observers to be a possible replacement.

Department of Interior Secretary Ken Salazar announced on January 16 that he will step down in March and return to his home state of Colorado. Among those speculated to be possible replacements are Arizona Congressman Raul Grijalva, former Washington Governor Christine Gregoire, and former Colorado Governor Bill Ritter. The Interior Department has played a significant role in facilitating development of renewable energy projects on federal lands in the West during President Obama’s first term.

Climate Change Impacts:

On December 18, the Lawrence Berkeley National Laboratory issued a report prepared for the California Energy Commission finding that higher temperatures, wildfires and sea level increases due to climate change will impact generation and transmission assets in California, as well as gas storage tanks and pipelines. The report, entitled “*Estimating Risk to California Energy Infrastructure from Projected Climate Change*,” predicts that the state might need up to 40% more generation and transmission capacity per capita by the end of the century unless appropriate actions are taken to control carbon emissions. President Obama addressed the issue of climate change in his January 21 inaugural address, pledging that the U.S. will “lead the transition to sustainable energy.”

Tax Extenders Approved:

The “American Taxpayer Relief Act” (H.R. 8), which passed late on the night of December 31 in the Senate and late on the night of January 1 in the House, contains several provisions sought by the energy industry, including a one-year extension of the production tax credit for wind and other renewable energy resources, and an extension of investment tax credits in lieu of production tax credits that was sought by solar energy advocates. The bill was signed into law by President Obama on January 3, 2013.